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# Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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NRN Photo

**Bob Chinn, owner of Bob Chinn's Crab House in Wheeling, Ill., seated with lobster and crab entrées in his restaurant.**

## Chains mobilize for new menu blitz

### Operators take aim at recession with new products

by Peter Romeo

BALTIMORE — As warnings of a recession continue to mount, a number of restaurant chains are planning to combat the downturn with a barrage of new menu items.

Among the products slated for rollout are hot dogs and chili dogs, by the Carl's Jr. hamburger chain; broiled seafood, by the Captain D's quick-service fish operation; and baked fish, by Skipper's, a Northwestern fried-fish specialist.

During a financial conference held here by the Alex. Brown & Sons brokerage, Cracker Barrel executives disclosed that a supplier is developing a new array of ice creams for the country-themed chain. And Chili's officials showed a commercial touting the dinner-house operation's new Awesome Blossom, an appetizer of fried onion.

Rally's, the fast-growing double-drive-thru chain, indicated that it has also been experimenting with possible menu additions, including a low-calorie milk shake. But president Richard Sherman noted that the product has not been warmly accepted in sales tests.

"Our customers tell us they want the fattier shakes," he said.

Shoney's Inc., parent of Captain D's and a slew of other foodservice concepts, revealed that it has shifted its test kitchens into overdrive.

"Last year at this time, we had 30 items in test for all of our restaurants," chairman Len Roberts told the portfolio managers at the Alex. Brown conference. "We currently have 250 items in test."

The operator has already

*(See CHAINS, page 73)*

## Rustic crab houses claw westward as idea catches on

by Carolyn Walkup

CHICAGO — Crab houses, once strictly an Eastern seaboard phenomenon, are proliferating around the country, aided by modern air transpor- s all varieties anywhere in .

f crab house n is rustic — a of place with utcher paper cks of paper napkins and sinks in the dining rooms for washing hands after messy, butter-soaked feasts. These places are not to be confused with pricier fine-dining seafood restaurants.

Those on the coasts tend to meet regional preferences for crabs from the nearest ocean. The Chicago area, though, is building its own tradition as a source for crabs from all over

*(See CRAB HOUSES, page 73)*

## McD's switch to paper fuels packaging debate

by Alan Liddle

McDonald's widely publicized switch from polystyrene to paper packaging has turned up the heat under the long-simmering disposable container controversy.

And the hamburger giant's competitors wasted no time jumping on the publicity bandwagon, boasting that they had always used paper products or had shifted to them first.

Burger King fired the biggest shot at McDonald's move by running sarcastic full-page ads in several prominent daily newspapers, including The New York Times, Los Angeles Times and Washington Post.

**Raber urges industry to fight consumer activists**
See story on page 4

The ads trumpeted, "Burger King applauds McDonald's new environmental consciousness ... Welcome to the club," and, noting that Burger King has used paper-based packaging since its founding, "We wonder what the planet would be like if you had joined us in 1955?"

"When you do something good for the environment, everybody wins," said Melissa

*(See MCDONALD'S, page 4)*


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**Making It in America**
Focus/Pages 39-44


## JB's signs on as Sbarro franchisee

by Bill Carlino

SALT LAKE CITY — Subscribing to the axiom that two growth vehicles are better than one, JB's Restaurants, the 134-unit family restaurant chain, has sealed an agreement to become a franchisee of Sbarro, a quick-service Italian concept.

Under the terms of the contract, JB's Restaurants, based here, owns the exclusive rights to develop Sbarro in Phoenix and in Portland, Ore.

JB's operations are currently scattered throughout 10 Western states.

"The two companies will be run independently of each other," explained Fred P. Gonzales, president and chief operating officer of JB's Restaurants. "The attractive part of the agreement is that the two operations won't be in conflict because they cater to different customer segments."

The contract includes the purchase of two Sbarro units already in operation in Phoenix and Scottsdale, Ariz.

Based in Commack, N.Y., Sbarro has traditionally opened in-line units in shopping malls. However, because of JB's experience in operating stand-alone stores, Gonzales hinted that they might explore

*(See JB'S, page 72)*

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## NEWS BRIEFS

### Copeland defaults on loan, seeks debt restructuring

JEFFERSON, La. — Al Copeland Enterprises, owner and franchisor of the Popeyes and Church's Fried Chicken Chains, is in default on $391 million in debt and is scrambling to put together a debt restructuring plan to avoid bankruptcy.

Copeland, which acquired Church's last year for $392 million, said that it failed to pay $3.3 million in bridge loan interest and $4.2 million in principal due in September on a term loan and that extensions have expired.

If either the Canadian Imperial Bank of Commerce, which is owed $249 million on a term loan, or Merrill Lynch and Co., which holds $142 million in a subordinated bridge loan, demands payment, the company said it may be forced to seek Chapter 11 protection.

Copeland has reportedly brought in First Boston Corp. to restructure the debt, but it could not be reached for comment.

### Wholesale food cost inflation declines in Oct.

WASHINGTON — The rate of price increases for wholesale foods declined in October for the third month in a row on a year-to-year unadjusted basis, according to the Department of Labor's monthly producer price index.

Finished consumer foods, the report's category for wholesale foods, rose 4.3 percent last month on a yearly unadjusted basis, four-tenths of a percent lower than September's rate of increase and a full percentage point lower than August's.

Overall, the finished consumer foods contributed to a 6.4-percent unadjusted annual rise in the PPI.

Decreases in the rate of wholesale food costs were evident in many commodities. Cheese prices dropped 4.1 percent from year-ago levels and processed young chicken prices declined 5 percent.

### California voters defeat liquor-tax hikes, 'Big Green'

Californians roundly defeated the state's "nickel-a-drink" ballot initiative, which would have raised alcoholic-beverage taxes, and overwhelmingly rejected the proposed "Big Green" toxics and pesticides ban that critics said would have raised food prices.

Supported by grape growers and rice farmers, the alcohol industry spent about $18 million to defeat the "nickel" proposition and another $4 million to promote a "penny-a-drink" alternative, which also lost. The negative vote majority was 69 percent on the "nickel" proposition and 59 percent on the countermeasure.

Industry lobbyists predicted the "nickel" measure would have reduced beverage sales by $290 million a year and would have eliminated 6,000 jobs.

Chemical, oil and agricultural interests spent nearly $12 million to fight "Big Green," which lost by a 64-percent negative majority. Those industries raised another $5.5 million to support an alternative pesticide-control proposition, which lost on a 70-percent "no" vote.

### Judge removes Ch. 11 Caramba's management

NEW YORK — A judge's order has removed the management of Caramba Restaurants Inc. and replaced it with a new corporation empowered to manage the four-unit Tex-Mex chain.

Caramba, once touted as a hot local concept, filed for protection from creditors under Chapter 11 last month. The order enables the new corporation to manage the ailing company pending a sale hearing this month.

The moderately priced chain was founded in 1981 by owners Ralph Price, Paul Seaman and Prem Bhandari. Management had earlier expressed interest in expanding outside of New York.

### McCarty hotel plan scuttled by voters

SANTA MONICA, Calif. — Voters here overwhelmingly repealed the city's tentative agreement to permit restaurateur Michael McCarty to develop a 160-room luxury hotel on five acres of state-owned beach land.

McCarty, owner of the famed Michael's here and in New York and the Adirondack's restaurants in Denver and Washington, had himself sought the ballot referendum on the controversial project last summer. Rejection came by a vote of 18,234 to 11,358; by the same 62-percent majority voters passed a separate measure to restrict other construction in Santa Monica's coastal areas.

The city's voters "were upset by a lot of things, and we became the symbol," explained McCarty, who declined to say how much the now-scuttled project had cost to plan and promote since its inception several years ago. He reportedly outspent opponents by a wide margin by dropping more than $370,000 on the referendum campaign alone.

### Wendy's switches from boxes to bags for kids' meals

DUBLIN, Ohio — Wendy's International said it is switching from boxes to bags for its special children's meals as part of an ongoing waste-reduction campaign.

"We will go with a bag, and that translates into a reduction of 2.7 million pounds of waste," said spokesman Denny Lynch.

The phaseout of boxes and the introduction of biodegradable bags should be completed within six months, Lynch said.

He also said other waste-reducing steps the chain has taken this year and estimates of the pounds of debris they kept out of the waste stream included a switch from printed to embossed napkins, 60,000 pounds of ink; a change from plastic pickle barrels to condensed cans, 400,000 pounds of plastic; and a switch in mayonnaise and mustard packaging from 5-gallon jugs in corrugated cardboard to squeeze pouches in smaller boxes, 600,000 pounds.

### Oregon voters defeat packaging materials ban

SALEM, Ore. — A sweeping statewide initiative, which, among other things, would have banned packaging materials that couldn't be recycled at least five times, was rejected 58 percent to 42 percent by Oregon voters Nov. 6.

The Oregon Restaurant Association opposed the measure because of concerns that its stringent provisions would prompt manufacturers to greatly reduce the product lines they offer in Oregon. Association officials contended the proposed law might also reduce food safety by eliminating the individual portion packs used by operators with limited facilities.

Members of the Oregon State Public Interest Research Group drafted the proposed law and helped to qualify it for a place on the ballot.

A similar group, which known as MASPIRG, is attempting to qualify a comprehensive packaging initiative for an upcoming election in Massachusetts.

### Rax retains firm to weigh options

COLUMBUS, Ohio — Stung by a three-year string of sliding sales and rumors of a possible sale, Rax Restaurants, a sandwich chain based here, has retained the Maryland-based investment firm of Alex. Brown & Sons to examine financial options available to the 521-unit company.

"We're considering all possibilities," said Rax chief executive Ira Hermann. "The minute you hire an investment firm, people automatically think that the company is up for sale. That's not the case here. Of course, if someone made a very attractive offer, I'm not saying we wouldn't listen."

In addition to contracting for outside financial advice, Rax will put its remaining 26 company-owned Florida restaurants on the selling block. The chain announced it was selling five Tampa restaurants just two weeks earlier.

Hermann added that Rax has also sold its 45,000-square-foot corporate headquarters building back to the mortgager and has taken a lease-back on the property.

FINANCIAL NEWS

# Recession is no big threat, operators assure investors

by Peter Romeo

BALTIMORE — With dozens of portfolio managers attending the Alex. Brown & Sons' stock conference here, restaurant-chain executives used the occasion to assure investors that savvy foodservice operators will weather a recession with little if any damage.

In detailing their business plans for 1991, several of the chain executives even asserted that their operations could benefit from a recession, which most agreed was either under way or imminent.

"Middle- and low-income consumers typically trade down, which helps the quick-service restaurant," said Loren Pannier, chief financial officer of Carl Karcher Enterprises, operator of the Carl's Jr. hamburger chain. In addition, "there could be a shakeout of smaller, less-capitalized companies, which could help us."

"A mild-to-moderate recession represents an upside — not a downside — opportunity to acquire market share from our competitors," said Len Roberts, chairman of Shoney's, whose holdings include dinner houses and family restaurants as well as two fast-food chains.

Those companies were among a number of operations that disclosed plans at the conference to counter a downturn by overhauling their development strategies and broadening their menus.

For instance, Carl Karcher Enterprises said it would strive to increase the percentage of licensed units within Carl's Jr., a West Coast powerhouse. However, president Don Karcher did not specify whether the company would sell additional new franchises or divest company units to licensees.

Shoney's provided an update of the expansion drive it commenced last year when Roberts joined the operation. He disclosed at the Alex. Brown conference that the company would add a new growth vehicle to its fold by licensing its Fifth Quarter steak- house concept. All nine of the existing outlets are company-operated.

**Selected Anti-Recession Strategies**

- Embrace new menu items to broaden appeal, bolster margins
- Experiment with different building types: larger ones, to enhance sales-to-investment ratios, and smaller ones, to shoehorn units into small towns.
- Increase percentage of franchised units within the chain
- Use new concepts as growth vehicles

Meanwhile, he said, the company's main business, the Shoney's family restaurant chain, is preparing to absorb the 43 units that a new Chicago franchisee plans to open in the Windy City.

In addition to bolstering Shoney's franchise revenues, that sizable addition will also help the company's foodservice supply business, according to Taylor Henry, the concern's chief financial officer.

"With every new opening, we have another prospective customer for our commissary business," he said.

Henry acknowledged that "right now we're in a slow economic environment." But, he stressed, the slowdown has not impeded the company's expansion.

"We have people lined up to open Shoney's [units]," he said, explaining that prospective operators are lured by the concept's sales-to-investment ratio of 1.75.

In addition, "the bankers in our area have done very well in lending to open new Shoney's restaurants," he said.

Executives of Chili's, the multiconcept dinner-house operation, said the company planned to expand all three of its systems, including its flagship, the 216-unit Chili's chain.

The company said that it now plans to ultimately open more than 400 of the Chili's restaurants, instead of the 300 units it had originally envisioned.

The reason, said chairman Norman Brinker, was the concept's unexpectedly strong performance in small towns.

"About 25 percent of the new Chili's will use our new, more compact design, with 160 seats instead of about 200," Brinker said. "That's one of the reasons we've been so successful in small towns."

Chili's president, Ron McDougall, said the company would open two Romano's Macaroni Grills, Chili's new casual Italian concept, during 1991. It currently has two units open, with sales averaging $2.5 million per restaurant.

That compares with a per-store average of $2.1 million for Chili's, he said.

Expansion of Regas Grill, a chain of casual restaurants which garner about $3.4 million each, will also continue, the Chili's executives said.

Cracker Barrel, the highly regarded chain of combination gift shops and family restaurants, said it is also using a new building prototype.

"There is a larger prototype that we're building, with 200 seats," said chairman Dan Evins.

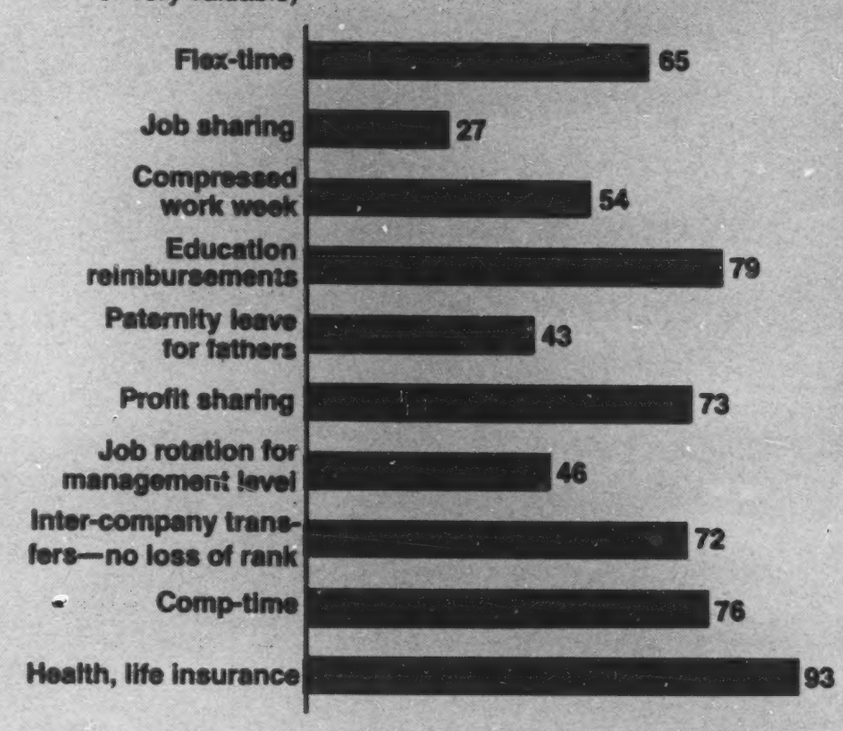
Skipper's, the Northwest-

*(See RECESSION, page 71)*

FACT FILE

**Employees pinpoint valuable benefits**

(percentage of employees to deem the following extremely or very valuable)




Source: Fairfield Research Inc., Lincoln, Neb. (as it appears in the October issue of the Restaurant Personnel newsletter)

FINANCIAL DIGEST

## TW Holdings loses $3.3 million in 3rd Q

SPARTANBURG, S.C. — Citing interest expense on the $2.6 billion debt stemming from last year's acquisition of TW Services and non-cash charges in the form of depreciation and amortization, TW Holdings Inc. posted a $3.3 million loss for the third quarter ended Sept. 30.

In the year-ago period the company lost $44.2 million after writing down $60 million in non-recurring merger-related expenses.

Third-quarter revenues for the TW Holdings rose 6 percent, to $974 million.

The company operates the Denny's, El Pollo Loco and Quincy's restaurant chains, Canteen, a large contract feeder, plus about 400 Hardee's restaurants.

## Sfuzzi secures private placement

NEW YORK — Sfuzzi Inc. said it has secured an $8 million private placement to fund expansion.

Montgomery Securities of San Francisco arranged the private placement in a series of preferred stock and subordinated debentures due in 1997.

The company, which operates seven Italian bistros in Dallas, New York, Houston, Washington, Boston, Denver and Philadelphia, is slated to open its eighth restaurant this month in Cleveland. It plans to add five units a year through 1992 and predicts it will gross $32 million next year.

## Judge okays part of Southland plan

DALLAS — A U.S. Bankruptcy judge approved a plan for Southland, the bankrupt parent of 7-Eleven, to pay $220 million in bills to creditors while it continues to hammer out a plan to reduce its $1.8 billion in junk bond debt.

In turn, the creditors will continue to supply Southland with normal credit terms. Southland filed Chapter 11 a month ago, listing debts at $2.5 billion and assets at $3.3 billion.

In addition to solidifying a plan to pay its debts, Southland is also working to appease its bondholders in order to pave the way for the takeover of the company by its largest franchisee, Ito-Yokado of Japan.

## National Convenience Stores' net falls

HOUSTON — National Convenience Stores, operator of the Stop N Go convenience store chain, reported a 73-percent drop in net income, to $1.2 million, for the first quarter ended Sept. 30, on a 2- percent rise in revenues, to $292.2 million.

The company attributed the earnings drop and the slim growth in sales to some "temporary" operating cost increases and said it expects stronger results as the year proceeds.

"The current quarter for NCS reflects strong results in the gasoline business, which were somewhat offset by a combination of flat merchandise sales and certain operating expenses that we believe are only temporary," said V.H. Van Horn, president and chief executive officer. "Looking ahead, I continue to be encouraged by the sales results of our remerchandising and reimaging efforts at Stop N Go."

FOOD PRICE OUTLOOK

# Chicken supplies down, prices stable

by Patt Patterson

Although the U.S. Department of Agriculture reports **broiler and fryer chicken** supplies were down in September by over 30 percent from last year's figure, prices are stable, at about the same level they were at this time in 1989. Producers have increased the number of chicks hatched at a slightly lower rate than demand, which suggests prices may rise into the new year.

**Turkey** supplies went into the holiday season about 20 percent higher than last year's, but demand continues strong, and production during the late summer started to taper off. Prices should stay relatively stable to slightly lower.

**Fresh cranberries** are tight. The New England crop has come in below forecasts. Most of the early harvest berries went to processors, with producers mostly withdrawn from the fresh market. Supplies are now flowing again but in reduced quantities to the foodservice market, with prices moving up.

Rising prices for **frozen shrimp** have slowed demand a bit, but there is no sign of prices dropping as long as demand outruns supply. Imports are up about 4 percent or 5 percent over last year's. Domestic catches in the Gulf of Mexico are running strong in large sizes, and harvest is slightly above last year's. . . **Farmed catfish** volume is down from last year's figure, with prices higher than those of 1989.

**Imported canned ham** supplies still are below normal, with prices at high levels. Denmark has increased its shipments to this country by about 20 percent this year, nosing out Poland for first place. Poland's shipments have dropped 45 percent this year. . . **Domestic ham** prices remain high, with no major reductions in sight.